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CENTRAL INTELLIGENCE AGENCY

OFFICE OF NATIONAL ESTIMATES

25 October 1956

STAFF MEMORANDUM #84-56

SUBJECT: Bolivia's Economic Stabilization Program May Precipitate Political Crisis*

1. Background. The new National Revolutionary Movement (MNR) regime, inaugurated in August 1956 and headed by President Siles Suszo, has been less successful than the Paz Estensoro regime (1952-1956) both in dealing with the nation's serious short- and long-range difficulties and in maintaining political peace within the dominant MNR party. Indications of the explosiveness of the current tensions are: (1) the "hunger march" in La Paz on the afternoon of September 22, organized and led by the opposition Bolivian Socialist Falange (FSB); (2) the subsequent street riots, in which a variety of disgruntled political elements (MNR left-wing extremists, and probably the FSB and the Communists) were involved; and (3) the resignation of Juan Lechin, Bolivian labor head, from the Presidency of the Senate, which threatens the Siles regime's indispensable liaison with labor and with the left wing of the MNR party.

2. The Political Problem. Essentially, Siles' problem, as head of the executive branch of government and leader of the moderate sector of the MNR party, is to control, or at least to gain the cooperation and support of, the leftist faction of the MNR, headed by Lechin and Vice President Nuflo Chavez, which is dominant in the new Congress. The leftists differ from the moderates mainly in their greater reliance on Marxist doctrine, their non-Communist rather than anti-Communist attitude, their distrust of US aid and ultimate objectives, their desire to accelerate popular reforms and to strengthen the civilian militia, their insistence that the MNR's rightist opposition be dealt with sternly and severely, and their concern lest economic reform measures involve hardship and sacrifice for their constituents.

* The substance of this memorandum has been discussed with O/CI and DD/P at both branch and desk levels.

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3. The Economic Problem. Bolivia's long-serious economic difficulties have become considerably more critical since Siles' inauguration. The rapid inflation threatens to become runaway. The boliviano, 7,900 to one dollar at the time of Siles' inauguration is now 11,100 to the dollar. This accelerated depreciation of the boliviano has given rise to fool hoarding by distributors and consumers. Also, frost damage to the potato crop, break-down of price controls on food, and mishandling of the food supply during the last few months of the Paz administration, upset the stocks of food for domestic consumption. Despite the "hunger march" of 22 September, the government has not yet taken action to correct these conditions, which continue to deteriorate day by day.

4. The Crucible: an Economic Stabilization Program. The Siles regime is expected to take action soon, almost certainly within the next thirty days. The regime is already committed to stop Bolivia's wild inflation and to stabilize the economy under penalty of forfeiting US aid which is essential to maintaining Bolivia as a going concern. Also, by delaying action, the regime risks other incidents similar to the 22 September disturbances. Congress is expecting shortly to grant Siles broad decree-making powers to stabilize the economy, but a left-right MNR political power struggle may be precipitated if the decrees are too stern. The question is: who is going to pay and make the sacrifice involved in such anticipated measures as new taxes, budget cuts with consequent employee dismissals, import restrictions, curtailment of credit, etc.? Siles' delicate problem is that he must take reform measures strong enough to solve, or at least ameliorate appreciable the present economic crises, while at the same time his actions must not be so unpalatable to the left wing as to split the party and precipitate a political crisis.

5. The Outlook

a. Whether or not a schism occurs within the ruling MNR party in the near future will depend not only upon Siles tact and skill in handling an economic stabilization program, but also upon the actions of Juan Lechin and Nuflo Chavez. Although it is unlikely that either of the latter would hesitate to move against President Siles if their powers or freedom of political action were seriously circumscribed by the coming economic reforms, it is likely that, for reasons of political expediency and party unity, they will probably agree on a workable compromise with Siles and the moderates. As a result, the critical economic situation will probably be somewhat alleviated but by no means solved.

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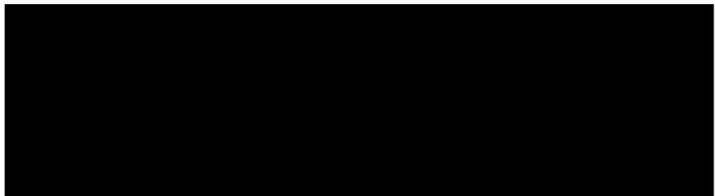
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b. In the unlikely event that an open break occurs between the moderate and left wings of the MNR, the outcome at present is in doubt. Factors which would directly condition the character and stability of a future government would be the political orientation and capabilities of the army and Carabineros, the cohesiveness of the left wing groups and their militias, the capabilities of the groups presently in opposition for uniting to provide leadership and political appeal, and the attitude of the US.

c. It is unlikely that either the Communists or the FSB can develop sufficient strength to pose a serious challenge to the MNR, but both possess sufficient potential to exploit continued economic deterioration or a split within the MNR.

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